

SCHWAB GAVE MORGAN IDEA OF STEEL TRUST

Also Persuaded Carnegie to Sell Out and Devote Himself to Philanthropy, He Testifies.

FAVORS HIGHER RAIL PRICES

First President of Big Corporation Says There's No Chance for Newcomers in the Business as Ore Is Bought Up.

Charles M. Schwab, president of the Bethlehem Steel Company, who, according to the words of Andrew Carnegie, knows more about the steel business than any other man in it, gave the House committee which is investigating the full benefit of the industry as well as those of the ultimate consumer if all of the independent steel concerns would regularly compare prices and cost of production seemed to fairly startle some of the committee.

In his opinion competition should give way to co-operation for the sake of economy, and in that way the best general results would accrue to the producer and consumer alike. He advocated a still higher tariff on steel rails, in order to afford the manufacturer what he termed a "fair profit."

Mr. Schwab did not attempt to conceal his "eye to business" in many of his frank answers to questions, and frequently a good natured passage at arms ensued between the witness and his inquisitors, which afforded general laughter. Chairman Stanley and the witness became so facetious on some of these occasions that it led Mr. Schwab to say: "You are paying so many compliments I am inclined to be confidential."

Mr. Stanley observed that it was a good thing to get the confidence of the witness and have him tell all he knew. Says Day of Trusts Is Passed.

Mr. Schwab told the "inside" story of the formation of the United States Steel Corporation. Remarking that Schwab was president of the Carnegie Steel Company at the time the Steel Corporation was formed to buy the property, and afterward the first president of the Steel Corporation, the chairman asked the witness to tell all he knew about it. The witness said he would not consider that he was the first one to suggest the idea of the big corporation, but he did not appear reluctant to accept the credit for it.

Chairman Stanley bluntly approached the subject of "trusts" with the remark: "I want you to lay the trust on this table and help me to dissect this animal."

Mr. Schwab said that the Steel Corporation had never been formed with any trust idea attached to it, in the sense that the word is conventionally understood. He was strongly opposed to the idea of restricting production, and the day of the so-called trust had passed, he said.

"My definition of the word trust," he said, "is an organization that will conduct its affairs in some artificial manner. I had always said that any organization founded on the idea of restricting output and fixing prices could never prosper."

The plan on which the formation of the Steel Corporation was based was essentially one of economy, of a general and systematic reduction of the cost of production, the witness said.

Chairman Stanley asked the witness about the "gentlemen's agreements" in the steel trade. He wanted to know if such agreements had not bound the steel manufacturers to regulated prices.

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a percentage of the output and a division of territory.

Mr. Schwab said that such agreements were a thing of the past. They had first begun to incur disfavor in 1900, and he had never considered these agreements in the light of contracts which could be enforced by law.

"My dear fellow," Mr. Schwab said, addressing the chairman, "I went into the steel business in 1880, and I heard of these agreements every day. Some of them lasted until one of the gentlemen concerned got to a telephone, some lasted a day, some lasted longer, but they were usually broken at will. I could not be definite as to any of them."

"Would not a \$100,000 penalty operate to maintain these agreements?" asked Mr. Stanley.

"\$100,000 Fine Wouldn't Count." "Not in the steel business," replied the witness. "If I saw a large order coming my way I would not let \$100,000 stand in the way."

"Could I get into the steel business?" inquired Mr. Stanley with mock seriousness.

Mr. Stanley's inquiry created a general burst of laughter, in which Mr. Schwab joined heartily.

Mr. Schwab said seriously that in his opinion it would be almost impossible for a new steel concern to start in the business to-day and prosper, for the reason that practically all the raw material, the great ore deposits, were owned or controlled by the companies in business. The witness believed the art of steel manufacture had reached such a state of perfection that it could hardly be improved.

Working up from the smaller trust idea in this country to the suggestion of an international steel trust, Mr. Young asked if Mr. Schwab had heard any such suggestion at the recent steel conference in Brussels.

"I was present at every meeting, and at the committee meetings, at that conference, and I want to assure you that at no time was there any talk of prices or a division of business. It is equally as false, as has been reported, that the American representatives had agreements of that kind in their pockets ready to sign."

"As a matter of fact, it seemed that we all went there to have a very good time," Mr. Schwab answered.

"And you had it?" queried Mr. Lindbergh, of counsel for the Steel Corporation.

"We did," said the witness as he almost ducked under the table in a convulsion of laughter.

"Is it necessary to go such a long way from home to have a good time?" interposed Mr. Stanley.

"There are conditions which sometimes make it necessary," replied Mr. Schwab, while the laughter continued.

Mr. Schwab said that a liberal tariff was necessary to protect the iron business in this country because labor and transportation were so much cheaper abroad. Germany could now put steel rails on the market in San Francisco cheaper than his company could do it. He thought that was not right, and the tariff should be even higher.

Would Raise Steel Rail Price.

The witness said that the price of steel rails had remained fixed at \$28 a ton for practically the last fifteen years.

"Who fixed that price?" asked Mr. Stanley.

"I think it was fixed by one of those gentlemen's agreements fifteen years ago," said Mr. Schwab. "That price has seemed to give a fair profit to the manufacturer and there has been no desire to change it. I think it is too low. I can say that the Bethlehem company has never sold any rails less than \$30 a ton, and have sold them as high as \$35. The \$28 price has been fixed naturally, I believe. It is a happy medium brought about by custom and usage."

"I take it if Germany offered her rails here in the market at \$26 a ton you would meet her price with some profit?" asked Congressman Beall.

"Yes, that is well expressed, with some profit," said the witness, with a strong emphasis on "some."

"Why was the price put to \$28?" asked Mr. Beall.

"Possibly because we had been used to \$21 and \$22 a ton for some time," said Mr. Schwab.

"Now that you have become used to \$28 you think it ought to go higher?" Mr. Beall suggested.

"Yes, quite so," replied the witness.

"Can you suggest any limit to the price you would like to get?" Mr. Beall asked with a smile.

"Not if you leave it to my imagination," said Mr. Schwab.

"I take it to be mostly a matter of your imagination," said the Texas Congressman solemnly.

Reverting to the question of tariff Mr. Stanley said he believed he summed up the witness's idea of it correctly by stating that he wanted a high tariff in order to swell the profits of the manufacturer.

"It is hardly fair to say that," said Mr. Schwab, "but that is undoubtedly one of the motives. I believe in it because it has been adopted as the best policy by all the enlightened nations of the world except England, and she is the only country which has not increased and developed her steel business in the last thirty years."

The witness said that there were other parties negotiating for the purchase of the Carnegie Steel Company prior to the time the Steel Corporation was formed. Representative Beall asked the witness for those persons were.

"I would prefer not to give their names," he replied, "suffice to say that none of them was connected later with the United States Steel Corporation."

"Were they persons who are now in the steel business?" pursued Mr. Beall.

Keeps Names a Secret.

"I prefer not to say," the witness repeated.

"That wouldn't give us any very definite idea who they were," ventured Mr. Beall.

"No, I don't intend to give any definite idea," said Mr. Schwab.

"What are your reasons for not wanting to tell?" asked Mr. Beall.

"That it is purely a personal and private matter," said Mr. Schwab, with some show of anger.

At another time, when Mr. Schwab had said that the Bethlehem company had recently bought a large order of ore in Sweden, which produced the highest grade ore of all countries in the world, Representative Stanley wanted to know what Mr. Schwab had told you," said the witness.

"I wouldn't care to tell you," said the witness.



MISS EMILY RANDOLPH, WHO PLAYS POLO LIKE A MAN. She is the daughter of P. S. P. Randolph, of Philadelphia, and in a game of polo yesterday at Narragansett Pier she outplayed some of the men, and also Miss K. Penn Smith, who was one of the opposing team.

"But I would like to know," said Mr. Sterling.

"I have no doubt there are many persons who would like to know," Mr. Schwab returned.

The question of wages and the general labor problem in the steel industry were taken up with the witness by various members of the committee. Mr. Schwab said there were in all 18,000 or 20,000 employees at the Bethlehem company plant, and that the average income a man was \$1,000 a year. He said that some of the blast furnace men worked twelve hours a day and seven days in the week. It was necessary to keep the furnaces going all the time, and the men insisted on working continuously, although they were given a day off if they asked for it, he said. Most of the employees worked ten hours a day.

Representative Littleton wanted to know if the organization of labor did not tend to keep the price of labor up, in Mr. Schwab's opinion.

"I do not think so," said Mr. Schwab. "There is not a very small percentage of organized labor in the Steel Corporation—only 10 per cent when I was connected with the Corporation—and there hasn't been a year since its formation that wages have not increased."

Carnegie Received \$500,000,000.

Chairman Stanley asked the witness what price Mr. Carnegie received from the Steel Corporation for the Carnegie plant. The price reported had been \$200,000,000, Mr. Stanley said.

"He received \$204,000,000 of bonds, \$95,000,000 of preferred stock and \$95,000,000 of common stock. If you take the stock at par it would figure up approximately \$200,000,000. He owned outright 51 per cent of the company, and besides that other members owed him for stock he had sold them."

Mr. Schwab had first suggested the great advantages to be derived by combining the various companies at a dinner tendered him by J. Edward Simmons and Charles Stewart at the University Club in October, 1899. J. P. Morgan sat on his left and E. H. Harriman on his right, he said, and E. H. Harriman, Andrew Carnegie and about eighty others high in the financial world were there. His ideas apparently impressed Mr. Morgan, for after he had gone home to Pittsburgh John W. Gates telephoned him to come to New York and confer with Mr. Morgan, he said.

"Mr. Morgan then asked me to get a price from Mr. Carnegie for his steel plant," said Mr. Schwab. "I did. I reminded Mr. Carnegie of his age and his desires in life—which were mostly philanthropic. Mr. Carnegie named his price, and I again went to Mr. Morgan and told him. Mr. Carnegie reluctantly named the price, and soon afterward regretted that he had sold. Beyond advising Mr. Morgan to some extent, after that he had nothing more to do with forming the Steel Corporation," Mr. Schwab said.

Recalls the Frick Suit.

Chairman Stanley, in an effort to show that the price paid for the Carnegie company's plant was highly exorbitant and inflated in relation to the physical value of the property, read in evidence the complaint and answer, the latter sworn to by Mr. Schwab, in the suit brought against the Carnegie company by Henry C. Frick when he broke with Carnegie, in 1899. Mr. Frick estimated at that time that the assets of the Carnegie company were worth \$250,000,000. Mr. Schwab in his answer denied it, and placed their value at only \$75,000,000.

Mr. Schwab pointed out that the smaller value was based on the actual money put in the business by the partners, and they all naturally wanted to keep it low in pursuance to the so-called "iron clad agreement" which was made that in case of the death or withdrawal of any partner he would be entitled to his share on that basis, so that they could buy the retiring partner's stock at a low figure.

"The object was to make Mr. Frick settle on the same terms as he had obligated other of the partners to settle," said Mr. Schwab.

"I didn't think it was fair at the time, and we afterward estimated the value of the property at \$250,000,000," Mr. Schwab added.

"But don't you think Mr. Frick wanted to get all he could and put the value as high as he could?" asked Mr. Stanley.

"No, I don't think so," replied the witness.

"Do you mean to say that Frick was so fastidiously conscientious that he entered upon this suit and deliberately swore himself out of \$100,000,000?" asked Mr. Stanley.

Mr. Schwab did not make reply to this question and the session adjourned with him still on the witness stand. He will resume his testimony at 10 o'clock this morning. The committee intend also to examine A. Barton Hepburn, president of the Clearing House Association, at the hearings in this city and resume them Tuesday in Washington, when George W. Perkins is expected as a witness.

THE POWER OF BASEBALL

Ex-Speaker Cannon Says a Game Can Empty the House.

Washington, Aug. 4.—The power of the national game to interfere with Congress was expressed to-day, when ex-Speaker Cannon declared a "baseball game will empty the House double quick." Representative Clark, of Indiana, wanted to make a speech, but Republican leaders thought of other important business to be disposed of while the House was filled with members.

"You don't think the gentleman from Florida will empty the House, do you?" asked Representative Henry, of Texas.

"No, but the ball game will," said Mr. Cannon.

The Washington and Chicago American League teams played here to-day, with many spectators from both branches of Congress.

WOMAN'S BODY IN SEWER

Cincinnati Police Believe She Was Murdered.

Cincinnati, Aug. 4.—A woman's body, almost decomposed, was found in a sewer to-day by two boys, and the police are working on the theory that the woman was murdered and thrown into the sewer several days ago. There was nothing besides the clothing with which the body might be identified.

The police admit that the neck may have been cut by water and driftwood and that the woman may have committed suicide, but incline to the murder theory. The woman was tall and rather stout, weighing perhaps 150 pounds, and apparently was about forty years old. There was a deep bruise on the breast.

SOFT COAL TRUST SUED; CONSPIRACY CHARGED

Government Asks Federal Court to Enjoin Combination from Continuing Business.

TRADE RESTRAINT ALLEGED

Six Railroad Companies and Three Bituminous Mining Concerns Are Charged with Crushing Competition.

Columbus, Ohio, Aug. 4.—Suit was filed by the United States government in the Federal Circuit Court to-day against six railroad companies and three coal mining concerns, charging a combination in restraint of trade and asking that the combination be enjoined from continuing business.

The government charges that the Hocking Valley Railroad amalgamation's ownership of the capital stock of the Toledo & Ohio Central, the Kanawha & Michigan and the Zanesville & Western roads and its connection with the mining concerns named has crushed competition.

The defendant companies are:

The Lake Shore & Michigan Southern Railroad, the Chesapeake & Ohio Railroad, the Hocking Valley Railroad, the Toledo & Ohio Central Railroad, the Kanawha & Michigan Railroad, the Zanesville & Western Railroad, the Sunday Creek Coal Company, the Continental Coal Company and the Kanawha and Hocking Coal and Coke Company.

The government's petition alleges that the combination thus formed affects four of the great coal mining fields, namely, the Pittsburgh, the West Virginia, the Kanawha Valley and the Hocking Valley.

It is alleged that the six railroads are affiliated and that the three coal companies are also, not only among themselves, but with the railroad companies.

The Hocking Valley, the Toledo & Ohio Central, the Kanawha & Michigan and the Zanesville & Western were until recently under control of the "trunk line syndicate." The Sunday Creek Coal Company is a holding company, controlling the Continental Coal Company and other companies owning properties in Virginia, West Virginia and Ohio.

The government's purpose is to prevent the change of ownership agreed on last year, when the trunk line syndicate turned over the four railroads and their affiliated coal companies to the Lake Shore & Michigan Southern and the Chesapeake & Ohio, the latter taking charge of the Hocking Valley, which is the principal one of the four roads.

To Break Alleged Combination.

The suit seeks further to break up entirely the alleged combination between the four roads and the Sunday Creek company and its subsidiaries, and to prevent the change of ownership of the coal companies, which has been the basis for innumerable suits brought in county and United States courts in Ohio.

Back of the fight has been the Ohio Coal Operators' Association, of which Howard Mannington, of Columbus, is secretary. He laid the case before the Department of Justice and urged that action be brought, and the government has been investigating conditions since that time.

The whole suit hinges on the Hocking Valley Railroad. The officials of this company, it is alleged, were placed in offices corresponding to those held in the parent company soon after the Hocking Valley road gained control of the capital stock of its subsidiaries, and according to the petition, were instructed to operate the roads along the same lines as the parent company had been managed.

Competition Stifled.

The company then set about controlling the larger coal companies and succeeded in placing the Continental Coal Company, which owns 28,000 acres of coal lands in the Hocking Valley district, on its list, along with the Kanawha & Hocking Valley Coal Company. The Sunday Creek Coal Company was formed as a blind, the government charges, to permit the Lake Shore & Michigan Southern Railroad and the Chesapeake & Ohio, along with the four Ohio companies, to stifle competition by merging all the railroads and the principal coal companies in the state into one corporation, while still retaining their own individuality.

The majority of the capital stock of the Sunday Creek company was held by the Hocking Valley Railroad at the time it was formed, according to the government petition, but was later turned over to the Central Trust Company of New York in order to avoid prosecution under the Hepburn law.

The consideration in this transfer was \$1 million and a mortgage for the full value of the stock. Another allegation contained in the petition is that the directors of the government-owned Sunday Creek Coal Company were merely "dummy" directors, and were instructed how they should vote and conduct themselves at all meetings of the board.

Another element entering into the government's petition is the "trunk line syndicate," which from 1893 to 1910 dominated the Hocking Valley Railroad through the majority ownership of its capital stock. What stand the government will take regarding the syndicate is not made plain in the petition.

Agreements Offered as Evidence.

Five agreements among the railroad companies, the coal companies and the Central Trust Company of New York are offered by the government as evidence in its petition. One of these agreements, made between the Continental Coal Company and the Toledo & Ohio Central Railroad, stated that in exchange for the coal company's placing its entire capital stock, with the exception of five shares, in the hands of J. P. Morgan & Co., as a guarantee of its good faith, and subject to the disposal, but not the sale, of the Toledo & Ohio Central Railroad, the railroad would take a block of the coal company's bonds off its hands and lend it support.

Another agreement between the Hocking Valley Railroad and the Toledo & Ohio Central was made, it is charged, in which the former company was to purchase one-half the bonds of the Continental Coal Company, held by the railroad, and to accept one-half of the traffic of the Continental Coal Company's mines.

Restraint of Trade.

In conclusion the government prays the court to adjudge the combination between the railroad companies and the coal companies unlawful and in restraint of trade, and to grant an injunction forever enjoining them from paying each other dividends on the stock they hold in the companies named as defendants in the suit.

The petition also asked that the companies be forever barred from voting the stock they hold in any of the defendant companies, thus putting the control into the hands of individuals owning blocks of stock, no matter how small.

The suit was filed by Sherman T. McPherson, U. S. District Attorney for the Southern District of Ohio. The petition, which contains eighty-eight pages, was signed by Mr. McPherson, George W. Wicksham, Attorney General of the United States; J. A. Fowler, assistant to the Attorney General, and O. E. Harrison, special assistant to the Attorney General.

Washington, Aug. 4.—The anti-trust suits brought to-day in Columbus against the soft coal roads are similar to those brought against the hard coal roads, now on appeal to the Supreme Court of the United States.

Attorney General Wicksham has been directing the preparation of the soft coal suits for several months. The suits filed to-day are the government's first move against the so-called bituminous coal trust.

Albert H. Harris, vice-president of the New York Central lines, which lease the Lake Shore & Michigan Southern road, is in charge of the law department. He is in Europe at present. O. E. Butterfield, assistant solicitor general, whose offices are in Detroit, is in New York this season looking out for Vice-President Harris's work.

"All the facts regarding the corporate relations of the coal carrying roads brought out by the Department of Justice were thrashed out last spring at the hearing before the Interstate Commerce Commission, following the suspension of an increase in the rates on West Virginia coal shipped to the Great Lakes," said Mr. Butterfield yesterday. "So there is really nothing new about that side of the controversy. Now, as far as the 'conspiracy' in restraint of trade is concerned, I need only say that we are now in the midst of a campaign to increase the differential rate existing between the Kanawha district of West Virginia and the Pittsburgh district of Western Pennsylvania. Does it look reasonable to suppose that we would increase the burden which the Kanawha operator already has to bear if we were aiming at a monopoly of the bituminous output?"

"The rate on Pittsburgh coal to Sandusky is 88 cents, and I think the present rate on Kanawha is 97 cents. Part of this is carried by the Kanawha & Michigan and part by the Chesapeake & Ohio. That makes a differential of 9 cents which the Kanawha operator pays to compete with the Pittsburgh operators in the Northwestern markets. Now we are doing our best before the Interstate Commerce Commission to raise the Kanawha rate to \$1.06. Why? Because the Pittsburgh coal is hauled 300 miles and the Kanawha about 200 miles."

A prominent New York Central official said yesterday that the move against the so-called "bituminous coal trust" was new to him, but he had a suspicion that the developments were the work of O. E. Harrison, a representative of the Department of Justice, who added the District Attorney at Cleveland when the Lake Shore road and the Pennsylvania officials were indicted for mismanagement of handling charges on coal in the Ashtabula Harbor. At that time Harrison expressed a wish of seeing the Pittsburgh in the lake district to watch the coal business.

The commotion drew a crowd of from five hundred to a thousand persons, mostly negroes, and when the police started away with their prisoners negro men and women gathered on the surrounding house-tops and in the windows and balconies. It was a fierce fire and well aimed, and the detectives had to draw their prisoners into the shelter of an iron shed at 62d street and Amsterdam avenue until patrol wagons came with the reserves from the West 84th street, West 100th street and West 17th street stations. The prisoners were taken to the West 100th street station and then to the night court. Many complaints have been received at the station houses from citizens and storekeepers in the neighborhood, and these were sent to Commissioner Waldo. Some of the charges were that negroes bought whiskey, went into the hallways and streets, and then came out and stood on the corners and insulted women.

The prisoners were charged with disorderly conduct, using obscene language and obstructing the sidewalk. When arraigned in the men's night court the negroes were each fined \$5 by Magistrate House. The magistrate said he quite agreed with the tactics of Commissioner Waldo, who was doing his best to keep the streets clear of objectionable persons, so that respectable persons could walk unmolested.

Wilmington, N. C., Aug. 4.—The drought, which has been seriously affecting crop conditions throughout the eastern section of the state, was effectively broken to-day by a general rainfall. The precipitation here was 4.85 inches, the greatest in twenty-four hours since 1887.

Harrisburg, Penn., Aug. 4.—The heaviest rainfall since the great flood of 1889 made itself welcome during the night. The record shows a precipitation of 3.37 inches from 5 p. m. yesterday to 8 a. m. to-day. Much damage was done to bridges and roads.

NEGROES FIGHT POLICE

Thirty-one Arrested as Loungers in San Juan Hill District.

HURL BRICKS FROM ROOFS

Detectives Had to Hold Prisoners Under Shed for Protection—Raid Fellows Complaints.

Commissioner Waldo has started to break up the negro gangs of the upper West Side with a vengeance. It was only Wednesday night that some of his men descended on the unsavory "gopher gang" and took seven white men, some of whom they believe were implicated in an attack on two women the night before. Last night Mr. Waldo sent his "flying squad" into the San Juan Hill district and they arrested thirty-one negroes. According to the police, these men have been lounging about the corners and nightly molesting young white girls.

Some of them escaped arrest, and these, seeing their companions arrested, got up on roofs and rained down such a fusillade of bricks that the police had to hold their prisoners under an iron shed until three patrol wagons arrived to take them to the night court.

Leutenant Becker and fourteen men arrived at the West 68th street station about 9:30 o'clock, dressed as longshoremen, and went quietly but busily about their work. Strutting over to 61st street and Amsterdam avenue, they found hundreds of negroes loafing about the corners of the densely populated block bounded by 57th and 71st streets, Amsterdam and Eleventh avenues. When they began their arrests some of the negroes showed fight, but they were soon subdued. Some of the detectives had to roll their men in the street before they could claim them.

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CANADIAN CROPS IN DANGER.